

Nov. 84 A 7

Spy-Case Lawyer Barred From Similar Va. Trial

Judge Sees Possible Conflict of Interest

By Howard Kurtz
Washington Post Staff Writer

A federal judge has barred the attorney for accused spy Richard Craig Smith from entering the fraud trial of a Hawaii businessman who, like Smith, contends that he was working for the Central Intelligence Agency.

The attorney, A. Brent Carruth of Los Angeles, had been named by a federal magistrate in Hawaii to represent Ronald R. Rewald, who faces 100 counts of fraud, perjury and tax evasion stemming from the collapse of his Honolulu investment firm. Rewald contends that the firm was used by the CIA for covert operations.

At a hearing Friday in U.S. District Court in Honolulu, Judge Harold Fong granted the government's request to disqualify Carruth from representing Rewald. The judge ruled that Carruth faced a conflict of interest in representing both defendants, each of whom may testify at the other's trial.

The tangled case also took a new turn as Carruth made new charges of CIA involvement with Rewald's bankrupt investment firm—Bishop, Baldwin, Rewald, Dillingham & Wong. The CIA has said it had only "a slight involvement" with the firm.

Smith, whose case is being heard in Alexandria, is accused of revealing six U.S. double agents to a Soviet intelligence officer for \$11,000. Smith, a former Army counterintelligence officer, contends that he reported to his CIA contacts through phone numbers at the investment firm.

Rewald was indicted in September on charges that he defrauded 400 investors, including two former CIA station chiefs in Hawaii, of about \$22 million.

In a sealed memorandum made public by the court, Carruth said that, at the CIA's direction, an agency operative using the name Richard Cavanaugh withdrew his money from the firm before its collapse in the summer of 1983.

Carruth said that Cavanaugh had been provided with stationery and business cards from a subsidiary of the investment firm. He also charged that the CIA fired Cavanaugh "so they don't have to produce him" as a witness.

Other sources, however, said that the CIA allowed Cavanaugh to retire because he had invested more than \$100,000 in the firm while also dealing professionally with Rewald. CIA officials ordered Cavanaugh to withdraw his money because they felt there was an appearance of impropriety, not because they knew the firm was near collapse, according to the sources.

Fong expressed skepticism about the allegations of CIA ties, saying, he was "not presently persuaded that any CIA involvement . . . is an issue" in Rewald's defense.

Carruth's dismissal from the case came at the request of Theodore S. Greenberg, an assistant U.S. attorney in Alexandria. Carruth responded that Greenberg and another federal prosecutor were "CIA order-takers."

Special correspondent Walter Wright contributed to this report.

*File Rewald
Cavanaugh*